



Secretary of the Air Force  
Office of Legislative Liaison

**C O N G R E S S I O N A L**  
**H E A R I N G R E S U M E**

**106th Congress \* Second Session\***

**Date: 16 Mar 00**

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**SUBJECT:           Housing Privatization and Asset Management**

**COMMITTEE:     HASC Subcommittee on Military Installations and Facilities**

**CHAIRMAN:       Joel Hefley (CO)**

**MEMBERS (PRESENT INDICATED WITH \*)**

**Republicans**

Tillie Fowler (FL)\*  
John McHugh (NY)\*  
Edward McKeon (CA)  
John Hostettler (IN)  
Van Hilleary (TN)\*  
Joe Scarborough (FL)  
Jim Saxton (NJ)\*  
Bob Stump (AZ)\*  
Steve Buyer (IN)

**Democrats**

Gene Taylor (MS)\* Ranking  
Solomon Ortiz (TX)  
Neil Abercrombie (HI)\*  
Robert Underwood (GU)  
Silvestre Reyes (TX)\*  
Vic Snyder (AR)\*  
Robert Brady (PA)  
Mike Thompson (CA)\*

**WITNESSES:**

**Mr. Randall Yim**, Deputy Under Secretary of Defense (Installations)

**The Honorable Mahlon Apgar**, Asst Sec Army, Installations, Logistics, Environment

**Mr Duncan Holaday**, Dep Asst Sec of the Navy for Installations/Facilities

**Mr Jimmy Dishner**, Dep Asst Sec of the Air Force for Installations

**Information contained in this resume was obtained during an open hearing. It will not be released outside of the Department of Defense (DOD) agencies until published hearing transcripts have been released by the Committee, and only to the extent it is in accord with published hearing procedures.**

**Prepared by: Major Lucian Niemeyer**

**Date: 17 Mar 00 Ext: 697-7950**



**EXECUTIVE SUMMARY:** General tone was inquisitive and direct. Questions ranged from housing masterplan funding shortfalls, housing privatization, and utility privatization. Committee considered the extension of housing privatization initiatives beyond February 2001 and asked the panel what changes should be made to existing authorities. AF issues focused the results from the Lackland effort, impact of privatization on local schools, the cost of consultants for housing privatization, the \$347M disconnect in the AF budget between the Family Housing Masterplan and the FY01 budget request, the status of Brooks, and Rome Labs. OSD answered many questions on the impact of utility privatization to state/locally owned utilities, the role of state regulation, and current federal law to compete all utility privatization efforts. Housing privatization discussion ranged from observations that the AF is moving too slow to a request to consider alternative lease agreements similar to overseas initiatives. Many specific Member requests follow below:

**Panel I began at 1005 hrs**

**Chairman's Opening Remarks:** This subcommittee has been very supportive in recent years of initiatives to bring private sector capital and better business practices to bear, when appropriate, on improving the conditions of military infrastructure. However, no initiative can substitute for the continued attention of OSD to adequately fund military construction and RPM for bare sustainment. OSD has not provided adequate funding to cover these requirements. Privatization alone cannot solve all infrastructure and support problems.

Also, the committee it is critically important for Congress to exercise oversight of leasing activities and have visibility over financial flows related to new pilot asset management programs.

**CM Taylor:** Privatization projects to date have been extremely slow in execution at a time when waiting lists are years long for on-base housing along the Mississippi Gulf coast. What is the Department doing to accelerate the process and are we considering the local market condition when determining potential candidates?

**Mr Yim:** We agree that our testing of the authorities have taken a long time, but we're starting to see results. We are also evaluating ways to improve efficiency without jeopardizing key processes of due diligence and open competition.

**CM Taylor:** How do you give a local contractor a sense of security that a base will not be closed?"

**Mr Yim:** We build closure contingencies in the form of subsidies for each project

**CM Abercrombie:** How is OSD going to prevent local landlords from "rental gauging" to personally profit from the proposed BAH buy-down?

**Mr Yim:** We have a new system, **which** eliminates the survey and inserts some impartiality in the establishment of BAH rates.

**CM Rodriguez:** By insisting on competition for utility privatization, OSD is neglecting State laws and requirements for regulation. Why and if OSD persists in allowing unregulated utility ownership, what process or entity will ensure reliability?



**Mr Yim:** Existing Federal statutes require OSD to compete the utility privatization process and we believe this competition will ensure the best deal. In this process, we do work with local and state authorities to ensure reliability.

**CW Fowler:** Have we reprogrammed any of the proposed savings from utility privatization into other accounts over the FYDP? **Mr Yim:** Not that we know of. **CW Fowler:** By ignoring state regulation, aren't we assuming a significant oversight responsibility? Is OSD going to assume liability? Won't oversight expenses overcome the initial savings?

**Mr Dishner:** The AF has already privatized 80 systems using the expertise of AFCESA. They have assessed the economic of many of the same issues you raise, and have developed the best way to structure deals. We feel comfortable with our results to date. **Ms Fowler:** Of the 80 systems, how many were regulated? **Mr Dishner:** Get back to you.

**CM Hefley:** Why are you not letting public utility entities accomplish privatization in accordance with their state law? **Mr Yim:** Notion of federal sovereignty.

**CM Rodriguez:** Anything we can do?

**Mr Yim:** We remain flexible to congressional direction on this issue, recognizing that competition gives us the best value in most cases

**CM Hefley:** How will the BAH buy-down affect current privatization initiatives? What effect would full BAH funding have on housing requirements in general?

**Mr Yim:** We're still in the early stage of assessing the impact of this. No firm evidence to support trends in either direction;

Mr Dishner: We look to work with the contractor to "participate" in any increase

**CM Hefley:** Does OSD provide guidance on the methods of housing privatization to preserve the role of competition in the process?

**Mr Yim:** Yes, we provide oversight. As for innovative proposals being worked by the AF, while I am receptive to reviewing these plans, I have not seen them yet.

**CM Hefley:** What is OSD doing to ensure local school requirements are adequately satisfied during housing privatization initiatives without burdening local districts?

**Mr Dishner:** We work with local communities to integrate requirements caused by a transfer of DoD students to local districts. In the case of Robins AFB, we are including conveyance of Linwood DoD school to the local school district. AS for Lackland, the current privatization initiative can be accommodated in the local school district due to current excess capacity. Future programmed efforts for Lackland may result in a school deficit of over 300 students. We are working with DEA and the local community to ensure their requirements can be met.

**CM Hefley:** Why does the AF project an annual \$360M deficit between the AF Housing Master Plan and budgets over the next ten years, resulting in a total \$3.6B disconnect and delay of the 2010 goal?

**Mr Dishner:** We have to balance our vital housing requirements with other AF priorities. The deficit would be even worse, if not for the ability to include balanced housing privatization initiatives in our plan. We hope to be able to address this committee next year to say we have adjusted the program



**CM Hefley:** How much do the Services spend on consultants for housing privatization?

**Mr Dishner:** Because we do not consider the craft of financing deals to be a core competency, we have spent \$10.5M to date and expect to spend another \$2.5 in immediate future endeavors.

**CM Hefley:** Ref Rome Lab - "None of the Defense committees supported the Rome Lab \$12.0M plus-up. Only by whining from NY CM direct to the Speaker did an errant authority get in the FY00 budget. While it may not be BRAC proofing from a technical perspective, its sends a poor moral message. Does the AF support this authority?

**Mr Dishner:** SecAF has not made a decision yet on the acceptance of the proffer

**CM Hefley-** Would the AF object to a "de-authorization" of the project?

**Mr Dishner:** The AF supports the original requirement in the FY00 President's budget for \$12.8M

**The hearing ended at 1245 hrs.**